MM Docket: 92-266

CROWN MEDIA

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March 11, 1994

Mr. Blair Levin
Chief of Staff
Office of Chairman Reed Hundt
Federal Communications Commission
1919 M Street, NW
Room 814
Washington, DC 20554

Dear Blair:

A couple of weeks ago, following the release of the FCC action on cable regulation, you called me to get my reaction and see if I had any questions. At that time, I questioned why the Commission felt a need to take a broad-brush approach to the perceived problem, rather than singling out those "bad actors" who flaunted their disregard for the rules.

I have enclosed an article from the recent issue of <u>MultiChannel News</u> that I assume you saw. When you look at the great divergence in response to the original FCC action, I believe that my point is made very well. How can it be fair or responsible to treat all companies equally with a further 7% reduction? Why not go after those individual companies who chose not to comply? Why is it proper to treat all companies in the cable industry similarly, when it is obvious that companies have different degrees of responsibility, customer service, and legal compliance?

In some FCC document or release, I saw a quote from Chairman Hundt that this new action should result in rate decreases to 90% of the cable subscribers. Our company already achieved that 90% goal with the first action. Your further action that treats us as equally culpable to other companies who actually raised rates sends a signal that compliance with the spirit, as well as letter, of the law is not to be rewarded.

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Thank you for your consideration of my views, and thank you for inviting my comments. Since you have offered, I will feel free to give you my thoughts from time to time as the cable regulations develop.

Very truly yours,

CROWN MEDIA, INC.

James M. Hoak
Chairman

JMH:kh

FINANCE

FCC Survey Finds Big Difference in a la Carte Ops

By JOHN M. HIGGINS

NEW YORK — A la carte tiering made a stark difference in whether a particular operator's customers saw their overall cable bills go up or down under the first round of rate regulation, the Federal Communications Commission's price survey showed.

While the survey shows that subscribers' bills dropped about 5.9 percent overall, it points out several companies that it says made no reduction in customers' programming costs or actually increased their average prices.

The FCC's survey of cable rates identifies how different MSOs coped with the old rate rules. Overall bills dropped, primarily fueled by lower prices for equipment and second-set hookups, and many operators bit the bullet twice by taking big cuts in programming prices as well.

But some operators maneuvered around the rollback in programming charges. Topping that list was Century Communications Corp., whose aggressive use of a la carte tiering of "basic" services left customers paying 10 percent more for the same package of networks they had before regulation. The runner-up was Newhouse Broadcasting Corp., whose average programming charge jumped 8 percent, the survey said.

Adelphia Communications Corp., which was one of the most aggressive players in softening the regulation blow by pursuing a la carte, did not increase overall programming prices but kept them precisely even.

Adelphia senior vice president Craig Schmid said the company was not looking to use a la carte to increase programming revenues. "The intent that we had is we tried to make it equal," he said, noting that subscribers retained the option to trim their bills by dropping individual services.

The increase in some subscribers' bills drove cable's critics wild and helped provoke the FCC's latest 7 percent rollback on top of the earlier 10 percent average cut.

The second whack could be a particular problem for operators who ducked the last blow, some Wall Street executives cautioned.

Noting that he's already "worried about everything" regarding the new round of regulation, Salomon Brothers analyst Fred Moran Jr. said that operators who weren't as badly hurt in the September rollbacks have less scar tissue to withstand the pain coming in May.

But some cable operators said the FCC's analysis was flawed and overstated the amount of the increase. "It's an apple and orange," said Century Cable president Andrew Tow of the comparison between old basic packages and new a la carte tiers.

The FCC acknowledged some flaws. The survey did not take a random sample, but asked the top 25 MSOs to report the price changes between April and September 1993 at their 10 largest systems. Also, changes in equipment offerings and channel lineups make precise comparisons difficult.

Operators pointed out that some systems in the sample are pursuing cost-of-service proceedings, including five of Continental Cablevision Inc.'s 10 systems surveyed, so they did not roll their rates back at all.

But the FCC said its data nevertheless point out some interesting patterns in how its last round of rules really affected retail cable prices.

The key components of regulated revenue are charges for broadcast basic services, enhanced basic, as well as equipment like remote controls, converters and second-set hookups.

Using only those items, the survey showed that total billing for regulated services dropped 9 percent, while average subscriber bills dropped 10.2 percent.

However, those results are skewed by some operators' moves to strip networks out of the enhanced basic tier and began offering them a la carte which made them free from regulation. The a la carte "basic" channels were then packaged into a discounted tier. So while a system's enhanced basic rate might have dropped, subscribers were getting fewer services.

To adjust, the FCC survey rolled the new a la carte channels back in, reconstructing the old 30-40 channel basic package "to make an apples-to-apples comparison," said James Olson, chief of the FCC's Cable Services Competition Bureau.

A la carte made a big difference. While the average subscriber bill fell 5.9 percent overall, operators taking basic channels a la carte saw only a 3.7 percent decline. Operators that didn't use aggressive a la carte strategies suffered a 6.8 percent hit.

Virtually all of the decline came from equipment charges. Adjusting for a la carte, customers with only enhanced basic saw bills trimmed by just 1.5 percent. A customer with basic, two converters and remotes plus an additional outlet saw a 15.6 percent decline.

There are signs that the FCC's snapshot of price changes is a bit blurry. The survey pegs some operators with double-digit rollbacks in enhanced basic rates even after adjusting for a la carte. The rules, however, said that an operator did not have to roll rates back more than 10 percent under any circumstance.

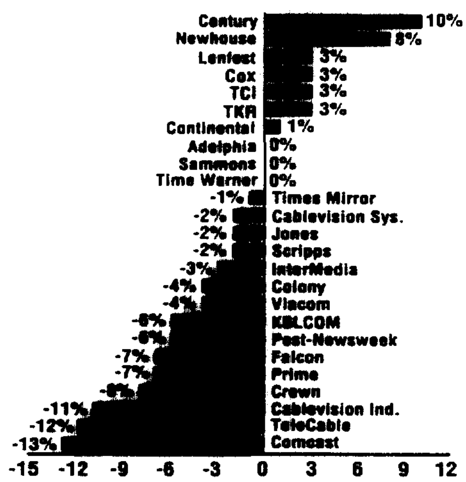
One operator the FCC judged had a big rollback said the survey apparently did not account for a monthly program guide that some of its systems were offering and have now broken out separately. That charge artificially inflated the April prices and made the comparison to September look like a big rollback.

Other finding of the survey include:

- When marked to the operator's actual cost, the average charge for a remote control fell 89 percent from $2.08 to 23 cents a month.
- The average additional outlet fee dropped 97 percent, from $4.69 to just 14 cents.
- Operators were apparently undercharging for addressable converters. The average charge rose 26 percent under regulation from $1.70 to $2.14 monthly. Nonaddressable converter fees dipped 2 percent to 65 cents.
- Installation costs dropped 9 percent from $46.08 to $42 for homes not already wired for cable. The cost of pre-wired installations dropped 28 percent, from $38.52 to $27.89.
- Systems using a la carte offerings did not generally expand capacity or fill out unused channels. On average, a la carte systems added just one channel to their systems. —MCN

Who Took The Hit?

The FCC's survey showed wide variance in how operators coped when regulation went into effect Sept. 1. Most of the top 25 MSOs scaled back programming charges to subscribers, some of them sharply. But after adjusting for a la carte tiering, some generated stiff overall increases.



Measures change in program charges between April 1 and Sept. 1, 1993. Program charges include broadcast and enhanced basic, plus rolls new a la carte tiers back in. Excludes declines in equipment prices.

Source: FCC